Jersey Central Power & Light
A FirstEnergy Company

Comments Regarding USF Board Staff Straw Universal Service Fund Recommendations Dated June 14, 2006

I. Type of Program - Staff recommends the Board affirm that USF is a limited, annual energy assistance credit, not a social service benefit designed to solve all of a household's needs for financial assistance that pertain to energy usage. Staff further recommends the current Program Structure and Eligibility Requirements be maintained for the 2006-2007 Program Year, including the current program eligibility requirements, but clarify that the percentage of income requirement is a method to estimate a targeted benefit amount. It is not a mandate to ensure every customer pays only the exact percentage of his or her income, under any circumstances whatsoever. It is a target or goal.

Staff Proposal - All applicants would be required to apply for USF within a designated time frame ("application window"). The benefit would be for a fixed period of time, based on fixed annual funding – determined several months prior to the commencement of each new Program Year. The benefit would be credited on a monthly basis, but applicants would only receive benefits based on available funding for a common fixed term. Staff recommends the Board phase-out the Fresh Start Program as well.

JCP&L agrees that current eligibility requirements should be maintained for the 2006-2007 Program Year. Utilities and other program delivery partners should be given adequate time to implement any future changes to program guidelines and processes.

JCP&L agrees that reducing households' energy burden to 3% or 6% is a target goal and not a mandate ensuring that customers pay only the exact percentage of income under any circumstances. JCP&L supports the concept of program participants bearing the burden of increased consumption under normal circumstances. However, USF should have the capability to react to unforeseen significant occurrences and be able to adjust participants' benefits using code developed by the Office of Information Technology (OIT).

JCP&L does not agree with the recommendation to establish an "application window" for purposes of USF enrollment. This concept would re-establish the discriminatory situation the program experienced early on, when the USF files could not be updated between program years. This resulted in customers having to wait until the next OIT calculation before entering the program; in some cases for up to twelve months. In addition, benefit portability could be adversely affected, if not eliminated. Program participants who move may not be able to receive benefits at their new address until the next application window occurs. Non low-income customers who become low-income customers for reasons such as job loss and family break-up would be barred from program participation until the next application window occurred. USF participation should be available to all eligible customers throughout the calendar year, with program benefits being calculated on an annual, rolling basis.

JCP&L does not agree with the recommendation to establish "fixed annual funding" which would cause participants' benefits to be stopped when the funding is exhausted. It is unrealistic to base this recommendation on the assumption of 100% program participation by eligible households – 381,575 electric customers and 319,713 natural gas customers, at an annual cost of $397 million (uncapped program) or $307 million (capped program).[1] A more realistic assumption would be for 50% program participation at an annual cost of $198 million (uncapped program) or $153 million (capped program). The most recently published Customer Assistance Program (CAP) participation rates (weighted averages) for Pennsylvania CAPs in Calendar Year 2004 are 39% for electric utilities and 31% for natural gas utilities.[2] FirstEnergy Human Services has had years of experience with Customer Assistance Program (CAP) absolute line item budgets at its three Pennsylvania utilities. It's been our experience that having program statistics from prior years allows for fairly accurate expenditure forecasts when establishing future annual expenditures. Having a single line item budget program being administered by a single utility, such as in Pennsylvania, is challenging. It would seem that to establish an absolute "line item budget" for a statewide program being offered at seven electric and gas utilities throughout the state would pose even more of an administrative challenge. Who would serve as the "central" program administrator? How would the program administrator keep track of awarded benefits on a daily basis? When approaching an annual budget limit, which company would stop taking applications and in what geographic area would this happen first, second, third, etc.? JCP&L suggests the Board consider establishing reasonably accurate program budgets based upon previous years' experience and statistics, and not shutting-down benefits if exceeded. By forecasting reasonably accurate participation rates and budgets, the over-recovery/under-recovery mechanism currently in place could continue with limited financial risk.

JCP&L does not agree with the recommendation to phase-out the Fresh Start Program. While USF subsidy benefits help make future bills affordable for low-income households, the debt forgiveness component provides these households with an opportunity to eliminate pre-program debt from a time when their energy bills consumed a significantly large portion of their disposable income. We recommend that the Board consider redesigning and continue offering the Fresh Start Program, to help limit annual program expenditures while at the same time

[1] APPRISE Impact Evaluation and Concurrent Process Evaluation of the New Jersey Universal Service Fund Final Report April 2006 – Page 26, Tables 3-14 and 3-15.
[2] Pennsylvania Public Utility Commission Bureau of Consumer Services – 2004 Report on Universal Service Programs and Collections Performance.

providing low-income households with this financial opportunity. Without Fresh Start it is very likely that USF participants will continue to struggle with their energy burden, even though current bills have been reduced to 3% or 6% of income.

At the beginning of our Pennsylvania programs we experienced customers coming into the program with very large balances of pre-program debt. After a time, we worked through those balances by offering these customers a debt forgiveness component. Now, we're experiencing more reasonable pre-program debt balances when enrolling new participants. This scenario will most likely be true for USF as well. JCP&L's average Fresh Start award is currently on a downward trend.

Debt Forgiveness Statistics
Universal Service Fund (USF)
Jersey Central Power & Light (JCP&L)

Program Dates	Number of Participants	Dollars Awarded	Average Award
04/01/04 thru 12/31/04	3,530	$ 440,451	$ 125
01/01/05 thru 12/31/05	2,625	$ 913,638	$ 348
01/01/06 thru 07/31/06	1,816	$ 313,046	$ 172
Totals	7,971	$ 1,667,135	$ 209

Note: The majority of 1st wave participants' window of opportunity ended in July of 2005. This most likely contributed to the spike in the average award amount for calendar year 2005.

II. <u>Communications</u> - Staff recommends the Board retain an experienced communications firm and for the Board to consider the most cost-effective options to increase awareness of the USF program. This is essential. Eligible program participants need to understand the substance and nature of available benefits, and other ratepayers understand the purpose and function of the program. Staff recommends the Board authorize Staff to develop a centralized, coordinated communications message for the 2007-2008 Program Year, as well as continue to educate current customers and new enrollees in the 2006-2007 Transition Year. The message must impart a comprehensive and cohesive message regarding the USF Program, and enable the those that administer the program (DHS, DCA, utilities, CAP agency) to convey specific, relevant information to customers regarding their rights and obligations upon enrolling in the Program. Staff recommends the Board direct Staff to develop an RFQ or RFP to undertake and implement this objective for 2007-2008.

<u>JCP&L agrees with the recommendation to retain an experienced communications firm to design USF informational materials for consumption by utility customers in general and/or low-income household USF participants</u>. JCP&L further recommends that this firm work closely with the community-based organizations (CBOs) that administer the program at the local level, to better

understand the interview processes and the immediate and long-term needs of the program applicants and caseworkers.

III. <u>Intended Beneficiaries</u> **- Staff recommends using targeted communications and increased program education efforts to reach under-served populations in their communities, rather than make substantial program changes to reach these groups. Staff also recommends direct outreach to other service providers and greater interaction and oversight of CAPs that provide USF-related USF services.**

<u>JCP&L cannot support the recommendation as stated</u>. JCP&L believes that realizing fully integrated and functional intake processes for local, state and federal universal service programs would "naturally" reach populations currently under-served. New Jersey is in a unique position and could be very close to realizing "one stop shopping" for all universal service programs offered to low-income residents. Some additional and practical coordination of client case management and enrollment procedures among agencies/programs could fairly easily accomplish "one stop shopping" in New Jersey. JCP&L would support this outreach recommendation, provided:

1. The current program has been made stable in areas such as computer programming support, delivery of benefits, communication tools, etc.;

2. Current program participants are first made aware of program benefits and program participant requirements through increased program educational efforts;

3. Fully integrated intake processes are implemented, and following a reasonable length of time, an independent impact evaluation declares them to be ineffective in reaching under-served populations; and

4. There is adequate program funding to support performing targeted outreach communications.

IV. <u>Program Management</u> **- The Board envisioned the USF program as a complement to the federal HEA program, with a joint application and cost-share arrangement. As such, existing infrastructure, common management, and dispensation of similar benefits were expected to have resulted in providing a program at nominal incremental administrative costs, as opposed to a new system which would have required infrastructure built from 'ground up'. Although USF has benefited from existing administrative structure, its costs are not necessarily "incremental". Staff recommends the Board streamline the USF program to provide more centralized control and clear delegation by the Board through direct contracts with service providers. Before providing additional funds over and above established budgetary caps, the Board**

needs to request a State Audit and reconciliation of accounts of existing service providers to determine how program costs should be allocated among those service providers and identify areas to create managerial efficiency before investing more dollars in program administration.

<u>JCP&L agrees with the recommendation to incorporate necessary and appropriate program management controls, but has some difficulty with other aspects of this recommendation</u>. It would seem that at this time the efficacy of the LIHEAP and USF connection cannot be fairly assessed due to program and delivery network instability and immaturity at the ground level. JCP&L does not feel it would be wise to replace or to significantly change the program's delivery network before giving that network a fair chance to demonstrate success. Until now, some of these delivery network issues have not been identified, and certainly not addressed. In addition, some of the delivery network issues appear to have been in place before the LIHEAP / USF connection was established. At the time of implementation the program quickly provided tens of thousands of New Jersey residents with energy assistance, but the hurried implementation has and continues to generate administrative expenses which possibly could have been avoided with a more systematic approach toward program implementation. Computer systems in support of the program, both at the Office of Information Technology and at the utility companies have been a major challenge to program administration.

Based upon extensive CBO comments at the Board's August 10th and 11th USF Working Group Meetings, JCP&L feels it would be appropriate for the Board to assess whether or not CBOs have been and are being adequately compensated for both LIHEAP and USF case management and marketing activities. The current administrative expenditures associated with USF are extremely low (less than 10% for the 2004-2005 Program Year) when compared with other programs of this size.[3] The most recently published Customer Assistance Program (CAP) administrative costs (weighted averages) for Pennsylvania CAPs in Calendar Year 2004 are 23% for electric utilities and 17% for natural gas utilities.[4] These Pennsylvania statistics include both utility and CBO delivery expenses. With regard to JCP&L's actual administrative costs, a total of $244,000 (2.17% of total program expenditures) was spent in calendar year 2005, to post just under $11 million in customer benefits – both USF bill subsidies and Fresh Start debt forgiveness credits. These administrative dollars also included the cost of the JCP&L Fresh Start Payment Counseling Pilot Program.

JCP&L's position regarding "budgetary caps" is discussed in our response to Recommendation Number 1.

[3] APPRISE Impact Evaluation and Concurrent Process Evaluation of the New Jersey Universal Service Fund Final Report April 2006 – Page 157, Table 11-1.
[4] Pennsylvania Public Utility Commission Bureau of Consumer Services – 2004 Report on Universal Service Programs and Collections Performance.

V. Fiscal Accountability - Staff recommends DHS be required to submit a budget that allocates sums between DHS and DCA, which the Board approves each year, prior to the rate-setting process. Staff also recommends the Board conduct program audits, and memorialize this recommendation in the form of a rule.

JCP&L agrees that the Board needs to ensure fiscal accountability to maintain program integrity.

VI. Program Effectiveness - Staff recommends the Board establish concrete performance measures for the Program, as well as specified annual goals, so it has a benchmark by which to assess the achievement of those goals. A concrete plan of action, reviewed and adopted by the Board, would minimize the need for on-going program modifications. Until concrete objectives and program measures have been established, there is no accurate way to assess program-effectiveness relative to specific goals.

JCP&L agrees with this recommendation and suggests a sub-committee comprised of Board staff members and USF Working Group members collaborate in developing performance measures and annual program goals for consideration by the Board. In addition, JCP&L recommends that the sub-committee explore ways in which annual program plans could be developed and submitted to the Board for consideration, and how these plans could be coordinated with program evaluations. In Pennsylvania, for example, utilities conduct independent program impact evaluations every six years and updated program plans every three years; with one of the updated plans being developed following publication of the impact evaluation results. The impact evaluation results are filed with the PA PUC by October 31, with the updated 3-year plan being filed in February of the following year.

JCP&L recommends that a sub-committee explore how all program administrative costs can be accurately captured and documented.

JCP&L also recommends that, if eligible and with landlord approval when necessary, participation in the Comfort Partners Program be made mandatory for all USF participants. Upon refusal to participate in Comfort Partners, USF benefits should be suspended until such time those USF participants agree to receive Comfort Partners weatherization measures and energy conservation education. Currently, JCP&L USF participants with high energy usage are being solicited for Comfort Partners. In a recent solicitation campaign targeting 3,823 USF participants, 1,775 households did not participate in Comfort Partners for a variety of reasons. Of those 1,775 nonparticipating households, 789 (44.45%) refused the program. JCP&L feels it is incumbent upon USF policy makers to require participation in Comfort Partners, in consideration of the ratepayers who are funding USF benefits.

Detail of 1,775 Nonparticipating High Use USF Participants

Reason	# Customers	Percent
Not Interested	789	44.45 %
Unable to Contact	388	21.86 %
Duplicate Entry – On Previous List	311	17.52 %
Customer Relocating	153	8.63 %
Already Received Comfort Partners	97	5.46 %
Housing Type Not Eligible	35	1.97 %
Utility Service Not Active	2	0.11 %
Totals	1,775	100.00 %

VII. <u>Regulatory Oversight and Information management</u> - Staff recommends the Board direct staff to propose a centralized data management system for USF, and implement any and all aspects of the May 2004 Data Tracking Report. Staff also recommends the Board meet with utilities and DHS to streamline all current forms of data reporting, and ensure the forthcoming Rule Proposal specifies the content, submission dates, distribution process, and format of applicable reports. Staff also recommends briefly reporting to the Board on a monthly basis, at the end of a regular agenda meeting, the status of the USF Transition to 2007-2008.

<u>JCP&L agrees with this recommendation</u>. In addition, JCP&L urges the Board to include all appropriate program stakeholders in the process to develop data management system solutions. JCP&L views the current and ongoing program related data management challenges as being significant barriers to overall program success.